



SUSTAINING CHINATOWN:

Historic Preservation Summer Series 2015

TAX CREDITS & PERMITTING IN AN HISTORIC DISTRICT

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PERMITTING IN A HISTORIC DISTRICT

Historic Properties within Historic Districts Fall Under Chapter 6E-10 of Hawaii Revised Statutes

What does that mean to properties within Chinatown?

- Property owners must consult with SHPD prior to moving forward with a proposed project

Property owners must contact and consult SHPD prior to applying for a building permit

Historic Properties within Historic Districts Fall Under Chapter 6E-10 of Hawaii Revised Statutes

What does that mean to properties within Chinatown?

- SHPD must concur with the project before the project can begin or continue

SHPD will review the building permit application from the Department of Planning and Permitting to ensure that the permit matches the scope of work SHPD concurred with during consultation.

SHPD has ninety days to review and provide comments
The permit.

Historic Properties within Historic Districts Fall Under Chapter 6E-10 of Hawaii Revised Statutes

What does that mean to properties within Chinatown?

- Minor maintenance or repair projects are excluded from this required consultation

Any project that alters the interior or exterior appearance of the building is not considered repair or Maintenance and must be consulted on with SHPD.

Historic Properties within Historic Districts Fall Under Chapter 6E-10 of Hawaii Revised Statutes

What does that mean to properties within Chinatown?

- Any project that begins without this consultation and concurrence from SHPD may result with the property owner being fined up to \$1000 a day until concurrence is given by SHPD

Chinatown
Photo By: Jessica Puff
State Historic Preservation Division ©



Preservation Incentives for Properties within Historic Districts

Why Reuse & Rehabilitate Historic Properties?

Carrots

- Tax Incentives
- Market Niche
- Environmentally Friendly
 - LEED pts
 - Embodied Energy
 - Walkable Neighborhood
- Community & Neighborhood cultural Sustainability



Sticks

- HRS Chapter 6E
- NEPA
- HP 1966

Misconceptions of Rehabilitating Historic Properties

- It's impossible to take advantage of modern technology & people expect modern amenities
- Rehabbing a historic property means that you have to restore the property
- Materials are expensive, hard to find, and you have to replace everything in kind
- Historic buildings/windows/doors aren't energy efficient

Bishop Museum
Photo By Mason Architects



Restoration

Hickam Community Center
Photo By Mason Architects



Rehabilitation

Iolani Palace
Photo By Mason Architects



Adaptive Reuse

Chinatown
Photo By: Jessica Puff
State Historic Preservation Division ©



FEDERAL HISTORIC PRESERVATION TAX INCENTIVES PROGRAM

Federal Historic Preservation Tax Credit

The Federal Historic Preservation Tax Credit program started in 1977. Since then it has generated over \$66 billion in private investment and over 2.4 million jobs.

Program Regulations:

NPS Regulations 36 CFR Part 67

IRS Regulations 26 CFR Part 1.48-12

Internal Revenue Code Section 47 Rehabilitation Credit

Federal Tax Incentives

- 20% Credit
- 10% Credit
- Donations
 - Façade Easements

Historic Preservation Tax Incentives



Federal Historic Preservation Tax Credit

- Federal tax incentive program created in 1981
- 20% credit for certified historic buildings
- 10% credit for non-historic buildings built before 1936
- Can be used for rental projects only
- 10% credit for non-residential, rental only
- Program is administered by the Department of Interior's National Park Service

Federal Historic Preservation Tax Credit

What buildings qualify?

- For the 20% credit, a building must be a “Certified Historic Structure,” meaning it is listed individually on the National Register of Historic Places or is located in a historic district and considered a significant contributing building.
- For the 10% credit, no certification is necessary.
- The process of getting a building listed on the Register begins by submitting a National Register Nomination form to NPS

Federal Historic Preservation Tax Credit

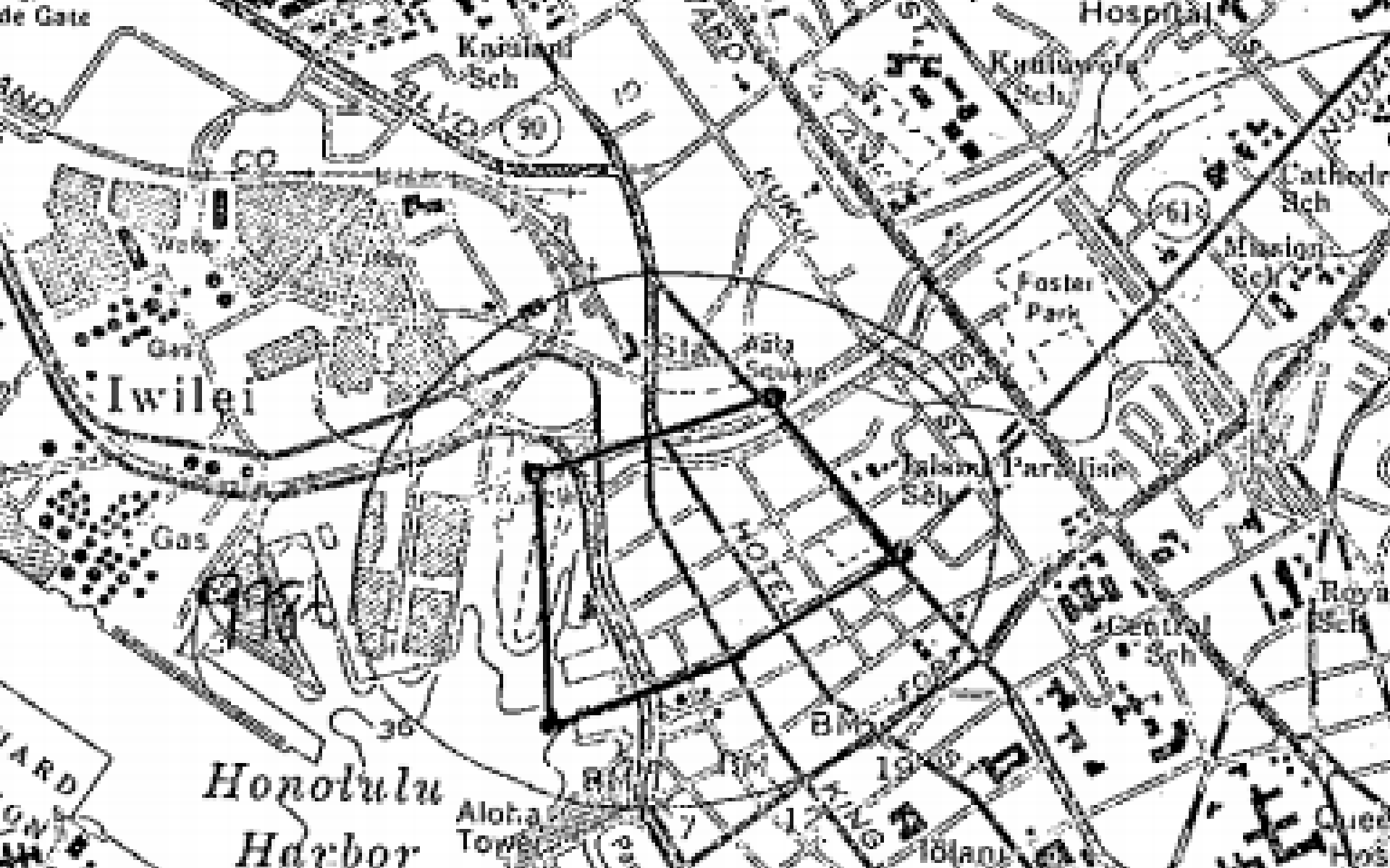
What does the Park Service look for?

- In order to be listed on the Register, a building must demonstrate historical, cultural, architectural, or archeological significance that
 - 1) is associated with events that have made a contribution to our history
 - 2) is associated with significant persons; or
 - 3) embodies a particular type, period, or style of construction or that represents the work of a master

Federal Historic Preservation Tax Credit

The certification process:

- The process of getting a Project certified for Historic Credits begins by submitting a “Part 1” Submission to the NPS, which documents existing building conditions prior to the rehabilitation, and documents its qualifications as an eligible structure
- The “Part 1” is reviewed by the State’s Historic Preservation Officer, who forwards the Part 1 submission to the National Park Service if it is approved



National Register Listed Properties in Chinatown



Federal Historic Preservation Tax Credit

The certification process:

- A “Part 2” Submission is then prepared, which documents the proposed rehabilitation (usually the Architect’s Plans & Specifications), and details how the rehabilitation plans conform with the Secretary of the Interior’s “Standards for Treatment of Historic Structures”.

Federal Historic Preservation Tax Credit

What rehabilitations qualify?

- Rehab must be “substantial.”
- Expenditures must exceed the greater of the “adjusted basis” or \$ 5,000.
- The plans for the rehab must conform to Dept. of the Interior standards
- As with the Part I, it is first reviewed by the State Historic Preservation Officer and then forwarded to the National Park Service for final approval.

Federal Historic Preservation Tax Credit

What does the Park Service look for?

- In order to receive Part II approval, a project must
 - 1) make every effort to minimize changes to the appearance or use of the structure or site
 - 2) retain significant historical features
 - 3) recognize a building's particular place in history by ensuring that alterations have a historical basis
 - 4) attempt to repair, rather than replace, deteriorated features

Federal Historic Preservation Tax Credit

Final Steps

- Once the project is completed, a Part 3 submission is made to SHPO & NPS, documenting that the completed rehabilitation conformed to plans approved in the Part 2 process.

Federal Historic Preservation Tax Credit

How is the HTC calculated?

- The “eligible rehabilitation basis” is calculated, and multiplied by 10 or 20%, depending on the type of credit
- Certain project costs are ineligible, including acquisition, equipment/fit-up and sitework, costs associated with permanent financing, marketing/lease up costs, and capitalized reserves.

Federal Historic Preservation Tax Credit

Eligible Expenses (include but aren't limited to)

- Walls
- Partitions
- Floors
- Ceilings
- Permanent coverings, such as paneling or tiles
- Windows and Doors
- Components of central air conditioning or heating systems
- Plumbing & Plumbing Fixtures/Sprinkler Systems
- Electrical wiring and light fixtures
- Stairs/Escalators/Fire Escapes

Federal Historic Preservation Tax Credit

Non- Eligible Expenses (include but aren't limited to)

- Appliances
- Cabinets
- Carpeting
- Decks (not a part of original building)
- New construction costs
- Fencing/Landscaping
- Furniture
- Parking lots, paving, planters, non-historic porches or porticos
- Signage

Federal Historic Preservation Tax Credit

Calculation of Eligible Basis

	Budget	Eligible Basis
Acquisition	\$500,000	\$0
Construction	\$5,380,000	\$5,000,000
A/E	\$350,000	\$350,000
Bond/Permit/Insurance/Taxes	\$150,000	\$150,000
Appraisal/Survey	\$12,000	\$12,000
Clerk	\$60,000	\$60,000
Legal	\$80,000	\$60,000
Title & Recording	\$10,000	\$10,000
Environmental/Traffic Consultants	\$15,000	\$15,000
Cost Certification/Accounting	\$10,000	\$10,000
Marketing	\$10,000	\$0
Construction Loan Interest	\$150,000	\$110,000
Financing Fees	\$40,000	\$20,000
Syndication Costs	\$33,000	\$0
Developer Fee	\$750,000	\$750,000
Operating Reserve	\$150,000	\$0
Subtotal	\$6,820,000	\$6,567,000
Capitalized Interest of Soft Debt		\$60,000
Total		\$6,627,000

Federal Historic Preservation Tax Credit

20% of Eligible Basis = Credit Amount

$$\$6,627,000 \times 20\% = \$1,325,400$$

Amount of equity to project depends on negotiated price investor pays for the credits (85-95%.)

Federal Historic Preservation Tax Credit

Additional Information

- After rehabilitation, the historic building must be used for an income producing purpose for at least five years.
- Can only be used for buildings – not structures
- Must have physical integrity
- Non-historic surface coverings
- Multiple-Buildings
- Moved Buildings
- Demolition

Federal Historic Preservation Tax Credit

How is the HTC used?

- The credit cannot be bought or sold by themselves
- The rehabilitation tax credit is only available to the person or entity who holds title to the property
- There can be no transfer of the credit without ownership. Transfer of the credits may only occur if the property has not been placed into service by previous owner
- Most commonly syndicated through limited partnerships

Federal Historic Preservation Tax Credit

Syndicated Tax Credit Transactions

- Require the tax credit investor to be admitted into a legal entity, such as a limited partnership or limited liability company that will either own the building or hold a long-term operating lease on the building
- In these circumstances, the tax credit investor acts as either a limited partner or investor member while the building owner serves as either the general partner or managing member

Kunia Villages
Photo By Mason Architects



Example Project: Kunia Villages

Federal Historic Preservation Tax Credit

Example In- Process Project: Kunia Villages

- Hawaii Agricultural Research Corporation
- estimated \$2.5 million project
 - utilization of Federal Historic Tax Credit & USDA loan as well as other funding sources
- approximately 20,103 square feet
- income producing residential project
- approximately 18 housing units
- to be completed in 3 phases
 - Phase 1: renovate 4 test case houses
 - Phase 2: renovate two streets of houses
 - Phase 3: removal of homes that can't be rehabilitated, final renovation projects, new construction

Federal Historic Preservation Tax Credit

Example In- Process Project: Kunia Villages

Project Scope of Work Includes:

- Foundation repairs
- Strengthening and replacement in kind of board-and-batten walls
- Repair and repainting of tongue and groove walls and ceilings
- Repair/replacement of interior & exterior doors and screen doors
- New corrugated metal roofs and addition of new rafters to provide strength/roof support
- New asphalt shingle roofs
- New gutters and downspouts
- Repair of porches
- Repair/replacement of windows
- Upgrading electrical and plumbing to code
- New vinyl flooring
- Replace sewer lines and grease traps

Kunia Villages
Photo By Mason Architects



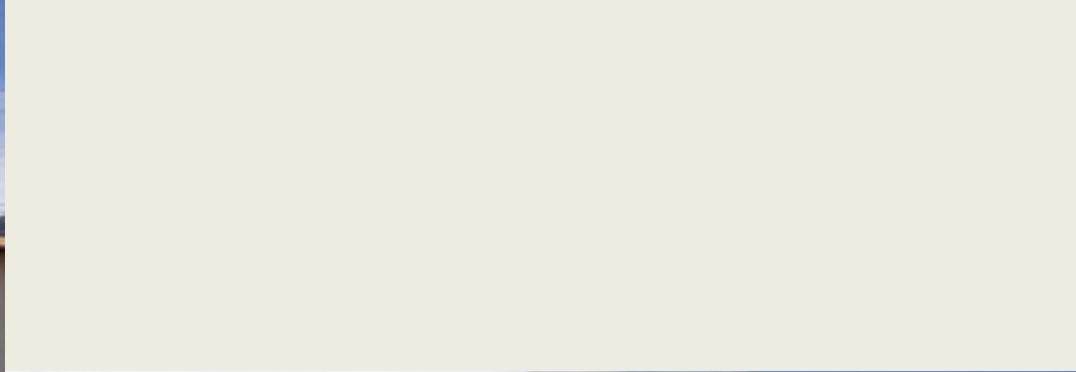
Kunia Villages: Before Photos

Kunia Villages
Photo By Mason Architects

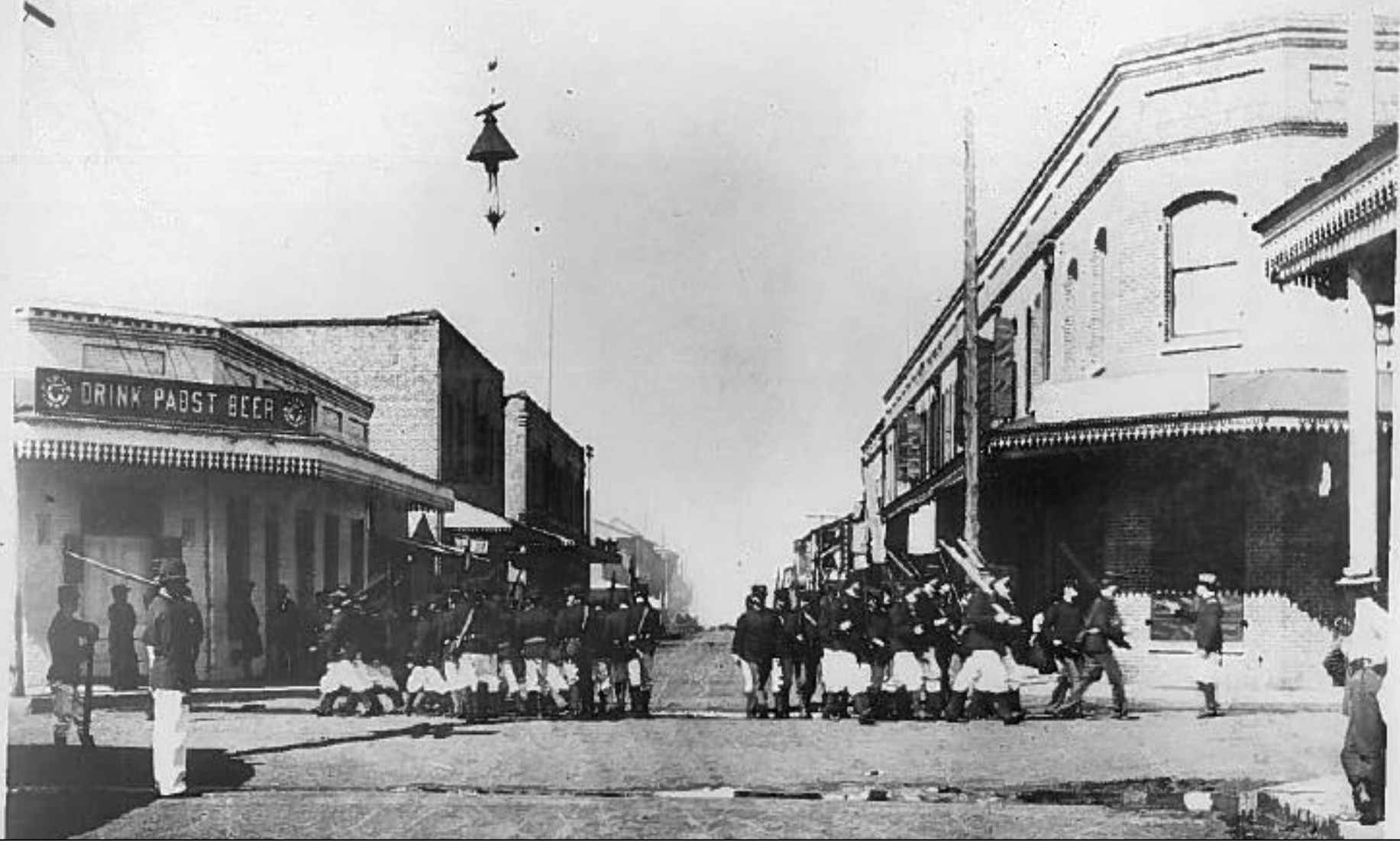


Kunia Villages: Before Photos

Kunia Villages
Photo By Mason Architects



Kunia Villages: Construction/After Photos



Example Project: One North Hotel Street/Stack Building

1900
Chinatown Fire
Hay St. Anchin

Federal Historic Preservation Tax Credit

Example In- Process Project: Stack Building

- Hawaii Agricultural Research Corporation
- estimated \$55, 000 project
 - utilization of just the Federal Historic Tax Credit
- income producing commercial building
- stabilize and rehabilitate a single story commercial building with deteriorated exterior walls and partial collapse of roof and walls
- completed in 1989

Federal Historic Preservation Tax Credit

Example In- Process Project: Stack Building

Project Scope of Work Includes:

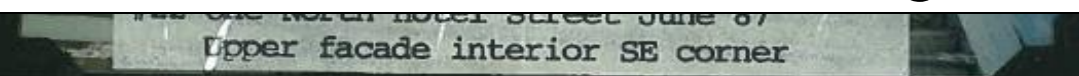
- Foundation repairs
- Strengthening and repointing brick walls
- Re-plastering
- Construction of new double walls to provide building stabilization
- Clean brick
- New roof and roof rafters
- New gutters and downspouts
- Repair of awnings
- Repair/repaint windows
- Upgrading electrical/ plumbing/ HVAC to code
- New flooring
- New exterior lighting



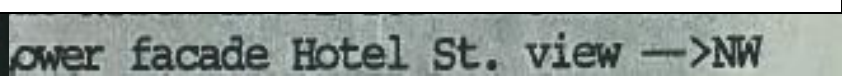
#28 One North Hotel Street June 87
Lower facade Nuuanu view —>W



Stack Building: Before Photos



Upper facade interior SE corner



Lower facade Hotel St. view —>NW



#4 Sept. '86
Interior → E



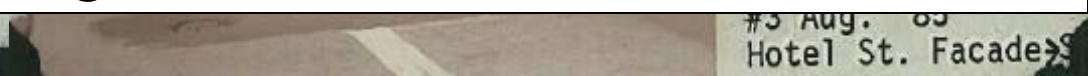
#1 Aug. '85
Corner, looking SW



Stack Building: Before Photos



#5 Sept. '86
Interior → S



#3 Aug. '85
Hotel St. Facade → S



#33 One North Hotel Street, July 89
Canopy at corner --S



Stack Building: After Photos

Entry jog saves orig. pillar. -->E

New roof southerly bldg. -->S



#28 One North Hotel Street, September 89
Lower facade Nuvanu view -->W



#7 One North Hotel Street July 88
NE bldg. Store 2 Interior -->E

Stack Building: After Photos

Lower facade Hotel St. view -->NW



Combination of Federal Incentive Programs

Combination of Federal Incentive Programs

Combining credits and programs can be complicated. Please consult with appropriate tax and financial experts as necessary.

Please notify SHPD of any deadlines related to other funding sources. SHPD will work with a project proponent to ensure the proper documentation is completed in order to meet investor, banking, and government program deadlines.

Combination of Federal Incentive Programs

Low Income Housing Tax Credit

- As long as the building and rehabilitation expenditures qualify for both credits, the tax payer must reduce the amount of rehabilitation expenditures eligible for the low income housing tax credit by the amount of rehabilitation tax credit allowed. The computation for annual depreciation includes a reduction of the depreciable basis by the amount of rehabilitation tax credit allowed.

Combination of Federal Incentive Programs

Brownfield Redevelopment Tax Credit

- Designed to spur investment in blighted properties and assist in revitalizing communities, the federal brownfields tax incentive is critical tool in brownfields cleanup and redevelopment efforts.
- The tax incentive encourages cleanup and redevelopment of brownfields by allowing taxpayers to reduce their taxable income by the cost of eligible cleanup expenses in the year they are incurred.
- It aims to level the playing field between greenfield and brownfield development

Combination of Federal Incentive Programs

New Markets Tax Credits

- Designed to stimulate the economies of distressed urban and rural communities and create jobs in low-income communities by expanding the availability of credit, investment capital, and financial services.
- Eligible Qualified Low-Income Community Investments include, but aren't limited to, loans or investments in businesses to be used for developing residential, commercial, industrial, a retail real estate projects.

Combination of Federal Incentive Programs

Business Energy Investment Tax Credit

- Provides incentives for the development and deployment of renewable energy technologies. A ten percent federal investment tax credit is available to offset expenditures for:

Solar, Geothermal Systems, Fuel Cells, Small Wind Turbines, Micro-turbines, Combined Heat and Power Systems

Combination of Federal Incentive Programs

Renewable Electricity Production Tax Credit

- Reduces the federal income taxes of qualified tax-paying owners of renewable energy products based on the electrical output, measured in kilowatt-hours, of grid-connected renewable energy facilities.
- The tax credit is equal to 2.2cents per kilowatt-hour for some technologies and half that amount for others.
- There are other incentives for Renewable Energy Bonus Depreciation Deduction and Renewable Energy Production Incentives

Chinatown
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Preservation Easement

Preservation Easement

Once the building and rehabilitation are certified by the Department of the Interior, the owner of the building can donate the façade easement. Generally these donations are made to qualified organizations under Internal Revenue Code **Section 170** and are considered to be donated in perpetuity.

Preservation Easement

- Charitable contribution **deduction** for the donation of a historic preservation easement.
- Donation must be made in perpetuity to a local historic preservation organization.
- Easement donation prohibits unauthorized changes to the exterior or demolition of historic buildings.
- Amount of the charitable contribution is equal to the appraised difference in the value of the property with and without the easement.
- Deduction is limited annually to 30% of gross income for individuals and 10% for corporations.



Chinatown
Photo By: Jessica Puff
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HART Historic Preservation Fund Grant

HART Historic Preservation Fund Grant

- \$2 million grant program to finance Historic Preservation projects for historic properties directly or indirectly effected by the HART Rail project.
- First round of grants assigned approximately \$600 thousand dollars for rehabilitation projects within Chinatown.
- Projects include repair of awnings, graffiti removal, and façade improvements.
- Second round grant application process will begin later this year or early next year.

Chinatown
Photo By: Jessica Puff
State Historic Preservation Division ©



Future Historic Preservation Incentives

Future Historic Preservation Incentives

- In addition to a grant program, the HART Rail project is also required to provide mitigation for effecting historic properties in the form of new and updated State & National Register Nominations
- These nominations will qualify areas, such as Chinatown, for the City and County of Honolulu's Commercial Property Tax Exemption program.

Future Historic Preservation Incentives

City and County of Honolulu Commercial Property Tax Exemption

- Enables a property tax rebate of 50% on designated historic sites used for commercial purposes, except hotel, resort, or industrial uses.
- Property must have been placed on the National or Hawaii Register of Historic Places before 1977.
- Chinatown Historic District was placed on the register in 1973. The nomination update will reset the listing date to a more current date.
- The nomination is still in draft form and should be completed and listed by 2020.

More Information

Federal Historic Tax Credit

www.nps.gov/tps

Secretary of the Interior's Standards for Rehabilitation

www.nps.gov/tps/standards/rehabilitation

Commercial Property Tax Exemption

www.historichawaiifoundation.org/resource-center-2/tax-info

Hawaii State Historic Preservation Division

<http://dlnr.hawaii.gov/shpd/tax-incentives/>